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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Downturn In Commodity Prices . . .

After surging with the expansion in U.S. economic activity, commodity prices have recently taken a tumble. Rising by 21 percent between the beginning of this recovery in November, 1982 and last March, the IMF's all commodity index fell by 10 percent during the next seven months. Commodity prices are very responsive to economic growth. As economic activity picks up so does demand, especially for industrial raw materials. For example, in 1983 the first full year of recovery, imports of industrial inputs (except oil) grew six percent over the 1982 level as importers competed with domestic producers to meet the burgeoning demand of a reinvigorated economy.

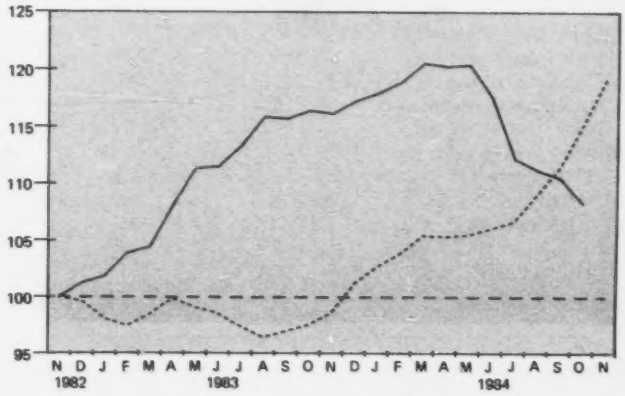
Since most commodities come from several sources of supply globally and are required by most every country, commodity prices tend toward a common world price. Prices for most commodities have risen sharply since the beginning of the current recovery due to escalating U.S. demand. Indeed, until recently commodity price performance in this recovery substantially exceeded the average rise in the four previous recoveries in which such data have been kept (see chart).

. . . May Soon Be Reversed . . .

But now the situation is beginning to change. There has been a slowing of overall economic growth in the United States. In the third quarter of this year real economic growth was 1.9 percent at a seasonally adjusted annual rate compared with an average of 8.6 percent for the first half. Clearly the recovery is slowing and commodity prices reflect the easing of demand. What is more, real economic growth in most of the other industrial countries has not been impressive so far. Real growth in Europe in the past year has been close to two percent and the forecasts for next year are not much better—perhaps 2.5 percent. Consequently, Western Europe's contribution to demand for commodities may not change much. Japan's real growth next year will also be close to this year's level and thus will generate only modest increases in the demand for commodities. If commodity prices are to recover, benefiting both U.S. producers and the commodity-exporting nations (largely developing countries), then the burden may well be on the United States' economy which now may be positioning itself to do just that.

High interest rates, which sapped some of the strength of this vigorous recovery, have recently begun to decline. As U.S. real interest rates have fallen, however, so have real interest rates in most other countries which also hope to reinvigorate their recoveries. This coincident downward move in global interest rates is likely to raise global growth prospects. If this occurs, commodity prices may well recover and, indeed, may hit new highs next year.

ALL COMMODITIES INDEX:
CURRENT RECOVERY (LINE), AVG. OF 4 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



. . . If Interest Rates Move Lower . . .

If anything is able to stem the decline in commodity prices, it would be a brisker pace of business throughout the industrial world—prospects for which have undoubtedly been enhanced by the sharp drop in U.S. domestic interest rates. Both short- and long-term interest rates have moved substantially lower in recent weeks, spurred downward by the slowing economy and the Federal Reserve's vigorous efforts to reverse this trend by easing monetary policy. Not even the disturbing likelihood that the Federal government's deficit in the current fiscal year would hit $200 billion, or

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about $30 billion higher than initially anticipated, could stem the move toward lower interest rates. Since the combination of subdued economic growth and a generally accommodative Fed is likely to persist for quite some time, the stage is set for even lower interest rates ahead.

Take, for example, the economy. The easing of such key business statistics as housing starts, building permits and retail sales in October all suggest that economic activity will be restrained in coming months, while the downward revision of real gross national product growth in the third quarter—from a 2.7 percent seasonally adjusted annual rate to a 1.9 percent pace—indicates that the economy in recent months was even weaker than originally thought. And while it still appears a good bet that the rate of growth will pick up as auto production is stepped up and housing starts rebound in line with the downturn in mortgage interest rates, it may not be all that apparent in the current quarter, when GNP growth will be hard pressed to match even the anemic, third quarter number. Still, with two of the essential ingredients for the onset of renewed recession—namely, excessive inventories in relation to sales and a tightening of the money and credit reins—absent, today's growth pause should be just that: Only a pause in what has

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/14/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov't and Agencies Owned Outright & RPs	161.451	+ .380	+ 4.812
Loans to Depository Inst.	4.683	– .878	+ 3.662
Float	.701	+ .488	– 1.311
Total Reserve Bank Credit	179.595	+ .180	+11.373
Treasury Deposits with Federal Reserve Banks	3.128	– .063	– .079
Currency in Circulation	178.589	+ 1.580	+11.094
Gov't's held for Foreign Acct. by F.R. Banks (End-of-Week)	117.677	– .690	+ 4.693
	11/7/84		
Member Bank Reserves:			
Total Reserves Held	37.941	+ .078	+ 3.245
Excess (Deficiency)	.531	+ .088	– .049
Net Borrowed Reserves	.928	+ .998	+ .591
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (11/5/84)	546.7	+ 0.3‡	+ 4.7‡
M2 (October '84)	2,317.0	+ 6.2	+ 6.9
M3 (October '84)	2,916.0	+ 7.8	+ 9.7
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/21/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.20%	8.35%	8.65%
* Federal Agencies	8.31	8.87	9.33
* Project Notes–Taxfree (46% Taxable Equivalent)	9.91	10.09	NA
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market–Prime	9.18	9.25	9.90

‡Finance Company Paper–Prime

5- 14 days	8.95%
15- 29 days	8.95
30- 59 days	8.95
60- 89 days	8.95
90-179 days	9.00
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances

Dec.	9.00%
Jan.	9.00
Feb.	9.00
Mar.	9.00
Apr.	9.03
May	8.98

‡Industrial Paper–Prime

30- 89 days	8.90%
90-120 days	8.75

†Federal Funds Effective Rate 9.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695r	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647r	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9r	7.1	6.8
Change in Consumer Prices (new series)*	Oct '84n	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Oct '84n	$ 3,086	$ 3,068r	$ 2,815
Leading Indicators Composite Index (1967=100)†	Sep '84	164.6	164.0	160.0
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Sep '84	–$ 12.65	–$ 9.86	–$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84n	1,515	1,679	1,672
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

so far been a very healthy business expansion.

. . . And The Economy Speeds Up

To be sure, while inventories could pile up unintentionally if sales slow further, prospects for a tightening of the money and credit reins at this time are just about nil. This is because with inflation rates modest, the pace of business slowing and money supply growth perhaps too well behaved, the Federal Reserve now has ample justification for a substantial easing of the monetary reins. The growth of the M1 money supply has been virtually flat since last summer, and if it is to pick up anytime soon, the Fed will have to liberalize the provision of reserves to the banking system even further. This suggests that with business loan demand still modest and the Fed moving toward ease, it is likely that further downward pressures on interest rates will soon emerge.

Beyond this year, however, if auto sales, housing starts and business inventory spending rebound as expected, short-term interest rates could rise again in early 1985. This is because as long as the impasse between Congress and the Administration continues, the Federal budget deficit will remain enormous—as will the likelihood of a clash between public and private borrowings, not to mention higher interest rates.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/7/84)	158,500	– 692	+14,402
New York City (11/7/84)	33,916	+ 81	+ 3,342
Commercial Paper (11/7/84)	233,191	+ 2,680	+52,251

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/7/84)	248,853	+ 1,940	+28,305
New York City (11/7/84)	64,437	+ 416	+ 5,750

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/7/84)	640,268	+ 3,359	+98,231
New York City (11/7/84)	143,752	+ 611	+21,924

Financial Markets

	Wednesday 11/21/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	– .10	– .35
180-Day Bills†	9.15	– .20	– .35
Longest Bills†	9.55	– .25	– .30
Recent Issues:			
11⅝s 10/31/86	10.40	– .30	
11⅜s 9/30/88	10.95	– .25	
11⅝s 11/15/94	11.40	– .30	
12½s 8/15/14	11.45	– .20	
Municipals:			
Bond Buyer–20 Bond Index* (11/15/84)	10.31%	+ .14	+ .61
Blue List Total ($ Million)	$1,802	+$ 16	+ $ 321
30-Day Visible Supply ($ Million)	$2,318	–$ 249	– $ 995
Total	$4,120	–$ 233	– $ 674
Corporates:			
Moody's Aa Composite (11/20/84)	12.64%	– .10	+ .03
30-Day Visible Supply ($ Million)	$3,800	+$2,110	+ $3,100
Stocks:			
Dow-Jones Averages:			
Industrials	1,201.52	– 5.41	– 74.19
Transportation	523.58	– 2.09	– 86.47
Utilities	143.67	– .56	+ 5.95
65 Stocks	476.48	– 1.90	– 36.09
Standard and Poor's 500 Stocks	164.52	– 1.47	– 2.44
N.Y.S.E. Composite Index	94.79	– .95	– 1.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	78,370	+ 5,328	– 20,160

* 46% Taxable equivalent 19.09%.

† Bond equivalent.

International Rates

	Wednesday 11/21/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.00%	9.50%
1 month	9.19	9.38
3 month	9.50	9.63
6 month	9.81	9.89
1 year	10.44	10.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	12.20%
Long Term (7 to 15 yrs.)	11.90	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/21/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01646	60.74
Canada	.7587	1.3180
Denmark	.09246	10.8160
France	.1081	9.2525
Germany	.3314	3.0175
Italy	.0005339	1873.00
Japan	.004078	245.20
Mexico	.004739	211.00
Netherlands	.2938	3.4033
Switzerland	.4000	2.4998
U.K.	1.2303	.8128

VAN GOGH

IN ARLES

The Metropolitan Museum of Art
October 18-December 30, 1984

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This exhibition gathers over 140 van Gogh works of art that have never been seen together before, and Manufacturers Hanover is pleased to help make it possible.

All visitors must have a ticket for a reserved date and time. Tickets available at the Uris *Center of the Museum* during all public hours. Also through Ticketron and Tele-Tron, a telephone service that accepts reservations with major credit cards. For ticketing information, call 570-3970.

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